

City of Manistee, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2014

CITY OF MANISTEE, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR	COLLEEN KENNY
MAYOR PRO-TEM	CATHERINE ZARING
COUNCIL MEMBER	MARK WITTLIEFF
COUNCIL MEMBER	ERIC GUSTAD
COUNCIL MEMBER	CHIP GOODSPEED
COUNCIL MEMBER	ROBERT HORNKOHL
COUNCIL MEMBER	ED COTE

APPOINTED OFFICERS

CITY MANAGER	MITCHELL D. DEISCH
CHIEF FINANCIAL OFFICER	EDWARD BRADFORD
CLERK/DEPUTY TREASURER	MICHELLE WRIGHT

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Manistee
Manistee, MI 49660

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of Manistee, Michigan, as of and for the year ending June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Manistee Housing Commission, which represents 92 percent, 87 percent, and 74 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Manistee Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the City Council
City of Manistee

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 13, page 46, and pages 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the City Council
City of Manistee

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistee, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014 on our consideration of the City of Manistee, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Manistee, Michigan's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 12, 2014

Management's Discussion and Analysis

As management of the City of Manistee, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2014 by \$36,882,027 (*net position*). Of this, \$4,655,761 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$994,657 or 2.8%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,130,684, an increase of \$1,000,818 or 9.0% from the prior year.
- At the end of the current fiscal year, the total General Fund fund balance was \$1,087,038, a decrease of \$34,866. Unassigned fund balance was \$678,378 or 11.8% of total General Fund expenditures and transfers out.
- The City's total long-term debt (including compensated absences and excluding leases) decreased by \$1,436,862.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise five components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) other information.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the legislative, general government, public safety, public works, community and economic development, recreation and culture, and other. The business-type activities of the City include water and sewer operations, Ramsdell Theatre, marina, and boat launch.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Friends of the Ramsdell and the Manistee Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the other information to these financial statements.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Oil and Gas Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

By May 15th of each year the City adopts an annual appropriated budget for general and special revenue funds for the coming fiscal year, which begins July 1st. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 16-18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Ramsdell Theatre, water and sewer, marina and boat ramp operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund and the Ramsdell Theatre Fund, which are considered to be major funds of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-45 of this report.

Required supplementary information. Required supplementary information related to the City's pension plan can be found on page 46 and budgetary comparison information related to the City's major governmental funds can be found on pages 47-50 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental and proprietary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 51-57 of this report.

Government-wide Financial Statements

A condensed version of the Statement of Net Position at June 30, 2014 follows:

**City of Manistee
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current Assets	\$ 12,815,503	\$ 12,094,317	\$ 1,421,710	\$ 1,855,691	\$ 14,237,213	\$ 13,950,008
Capital Assets	21,867,488	21,978,052	22,349,061	23,581,516	44,216,549	45,559,568
Total Assets	\$ 34,682,991	\$ 34,072,369	\$ 23,770,771	\$ 25,437,207	\$ 58,453,762	\$ 59,509,576
Liabilities						
Current Liabilities	\$ 1,040,201	\$ 1,053,396	\$ 1,376,189	\$ 1,875,573	\$ 2,416,390	\$ 2,928,969
Noncurrent Liabilities	8,384,792	8,719,382	10,770,553	11,973,855	19,155,345	20,693,237
Total Liabilities	9,424,993	9,772,778	12,146,742	13,849,428	21,571,735	23,622,206
Net Position						
Net Investment in Capital Assets	13,473,620	12,946,683	10,437,440	10,504,446	23,911,060	23,451,129
Restricted	7,895,206	7,724,370	420,000	464,294	8,315,206	8,188,664
Unrestricted	3,889,172	3,628,538	766,589	619,039	4,655,761	4,247,577
Total Net Position	\$ 25,257,998	\$ 24,299,591	\$ 11,624,029	\$ 11,587,779	\$ 36,882,027	\$ 35,887,370

The largest portion of the City's net position \$23,911,060 (65%) reflects its net investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

A portion of the City's net position of \$8,315,206 (22%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in restricted net position reflects the charter-protected Oil and Gas fund, the City's Bond Debt reserve, as well as other external restrictions. The remaining balance of unrestricted net position of \$4,655,761 (13%) may be used to meet the City's ongoing obligations to citizens and creditors.

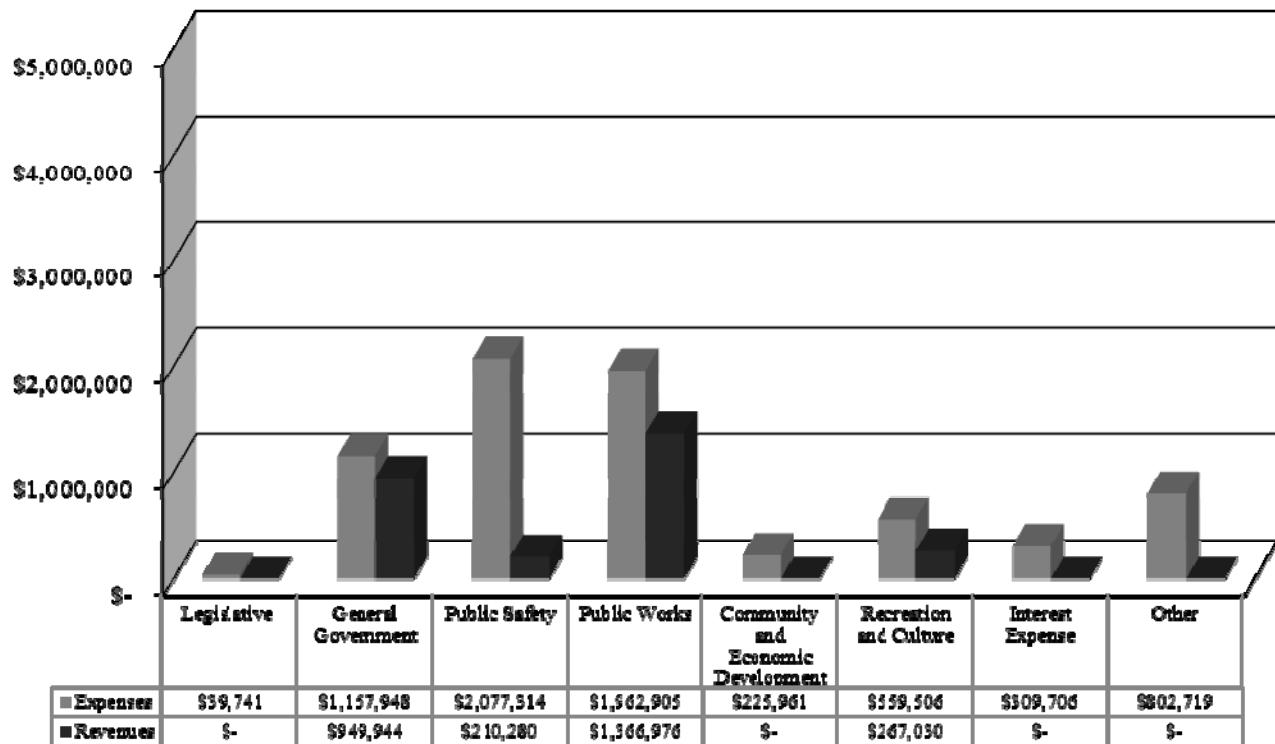
A condensed version of the Statement of Activities follows:

**City of Manistee
Condensed Statement of Changes in Net Position**

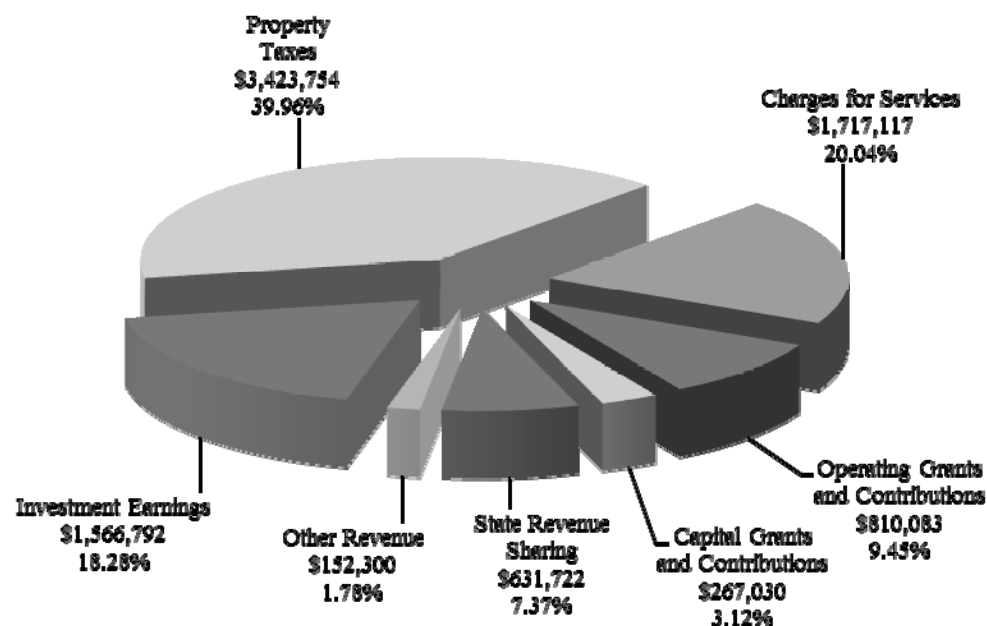
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 1,717,117	\$ 2,221,286	\$ 3,832,189	\$ 3,519,769	\$ 5,549,306	\$ 5,741,055
Operating Grants and Contributions	810,083	1,078,794	107,846	374	917,929	1,079,168
Capital Grants and Contributions	267,030	532,459	-	158,229	267,030	690,688
General Revenues						
Property Taxes	3,423,754	3,475,614	-	-	3,423,754	3,475,614
State Revenue Sharing	631,722	607,620	-	-	631,722	607,620
Other Revenue	152,300	260,724	-	-	152,300	260,724
Interest Earnings	1,566,792	957,146	521	8,557	1,567,313	965,703
Total Revenues	8,568,798	9,133,643	3,940,556	3,686,929	12,509,354	12,820,572
Expenses						
Legislative	39,741	-	-	-	39,741	-
General Government	1,157,948	1,505,445	-	-	1,157,948	1,505,445
Public Safety	2,077,314	1,794,609	-	-	2,077,314	1,794,609
Public Works	1,962,905	2,987,961	-	-	1,962,905	2,987,961
Community and Economic Development	225,961	613,454	-	-	225,961	613,454
Recreation and Culture	559,506	551,531	-	-	559,506	551,531
Interest Expense	309,706	338,613	-	-	309,706	338,613
Other	802,719	175,142	-	-	802,719	175,142
Boat Ramp	-	-	44,262	43,777	44,262	43,777
Marina	-	-	346,360	296,605	346,360	296,605
Ramsdell Theatre	-	-	352,479	237,376	352,479	237,376
Water and Sewer	-	-	3,364,523	3,509,442	3,364,523	3,509,442
Total Expenses	7,135,800	7,966,755	4,107,624	4,087,200	11,243,424	12,053,955
Changes in Net Position before Transfers	1,432,998	1,166,888	(167,068)	(400,271)	1,265,930	766,617
Transfers	(203,318)	(125,165)	203,318	125,165	-	-
Changes in Net Position	1,229,680	1,041,723	36,250	(275,106)	1,265,930	766,617
Net Position - Beginning	24,299,591	23,432,601	11,587,779	12,212,725	35,887,370	35,645,326
Prior Period Adjustment	(271,273)	(174,733)	-	(349,840)	(271,273)	(524,573)
Restated Net Position - Beginning	24,028,318	23,257,868	11,587,779	11,862,885	35,616,097	35,120,753
Net Position - Ending	\$ 25,257,998	\$ 24,299,591	\$ 11,624,029	\$ 11,587,779	\$ 36,882,027	\$ 35,887,370

Governmental activities. Governmental activities increased the City's ending net position by \$958,407.

Expenses and Program Revenues – Governmental Activities

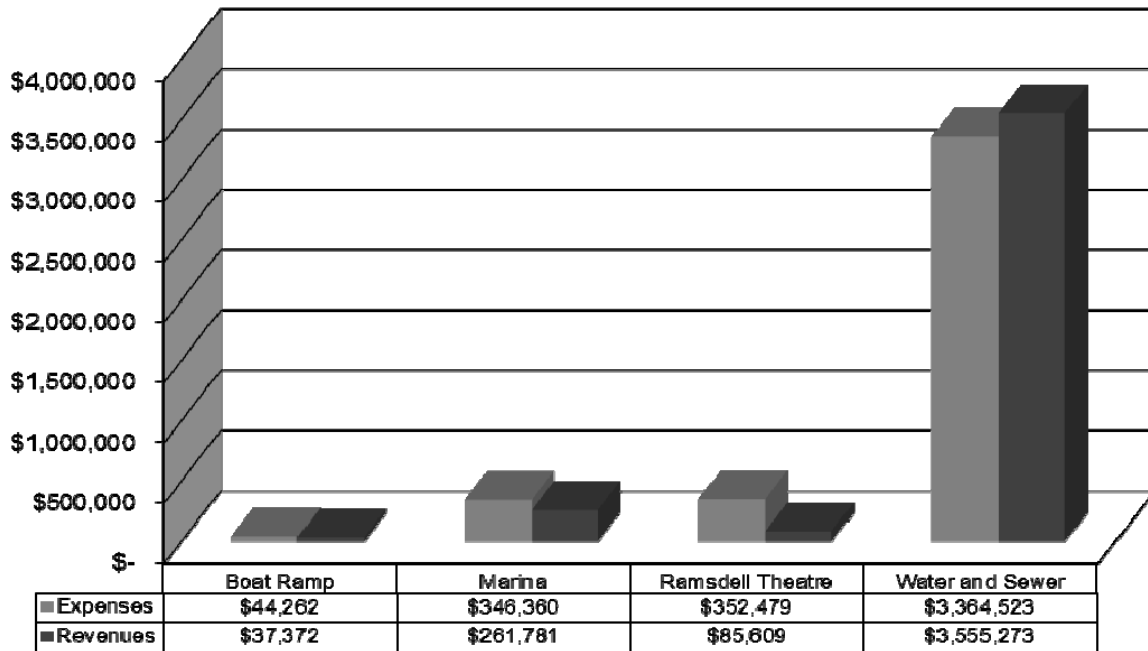


Revenues by Source – Governmental Activities



Business-type activities. Business-type activities increased the ending City's net position by \$36,250.

Expenses and Program Revenues – Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,087,038, of which \$678,378 was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures, including transfers out.

The Oil and Gas Fund has a total fund balance of \$10,409,785, which increased by \$1,024,387 during the year. This increase is due to an increase in earnings on investments. The City Charter prevents the principal of this fund to be spent without a vote of the people.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Ramsdell Theatre, Water and Sewer, Boat Ramp and Marina Funds at the end of the year amounted to \$766,589, restricted net position amounted to \$420,000 and net investment in capital assets, net of related debt amounted to \$10,437,440. The Ramsdell Theatre and Water and Sewer Funds have an increase in net position for the year of \$119,726, while the Boat Ramp and Marina have a decrease of \$51,449.

General Fund Budgetary Highlights

During the year, General Fund budget variance of expenditures was underspent by \$136,635 when comparing final budget to actual. This was primarily due to less actual expenditures than anticipated for public works and community development. General Fund revenues were more than anticipated by \$10,713. Further detail on budgetary highlights is found in the required supplementary information section of the audit report.

Capital Asset and Debt Administration

Capital Assets

The City's net investment in capital assets as of June 30, 2014, amounted to \$44,216,549. This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, furniture and equipment, vehicles, and construction in progress. The total net increase in the City's investment in capital assets after depreciation for the current fiscal year was \$141,596. The following table summarizes the capital assets of the City as of year end:

**City of Manistee
Capital Assets
(net of depreciation, where applicable)
June 30, 2014**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 4,715,697	\$ 4,715,697	\$ 60,207	\$ 60,207	\$ 4,775,904	\$ 4,775,904
Construction in Progress	-	444,107	123,516	97,936	123,516	542,043
Land Improvements	3,320,754	3,453,495	323,642	338,026	3,644,396	3,791,521
Infrastructure	8,101,357	8,220,317	18,211,979	19,270,438	26,313,336	27,490,755
Buildings and Improvements	3,594,062	3,315,039	3,123,010	3,316,227	6,717,072	6,631,266
Vehicles	900,468	-	-	-	900,468	-
Furniture and Equipment	1,235,150	344,782	506,707	498,682	1,741,857	843,464
Total Capital Assets, Net	<u>\$ 21,867,488</u>	<u>\$ 20,493,437</u>	<u>\$ 22,349,061</u>	<u>\$ 23,581,516</u>	<u>\$ 44,216,549</u>	<u>\$ 44,074,953</u>

Additional information on the City's capital assets can be found in Note 4 to the Financial Statements section of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total long-term debt of \$20,407,427. Of this amount, \$9,840,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents loans and bonds secured solely by specified revenue sources (i.e., revenue bonds). The City also has capital leases that amounted to \$232,032 at the end of the fiscal year. The City's total long-term debt (excluding compensated absences) decreased by \$1,724,130.

The following table summarizes the City's outstanding debt as of the end of the year:

**City of Manistee
Outstanding Long-Term Debt
June 30, 2014**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 8,125,000	\$ 8,735,000	\$ 1,810,000	\$ 1,980,000	\$ 9,935,000	\$ 10,715,000
Notes Payable	325,878	268,942	1,569,947	1,720,396	1,895,825	1,989,338
MEDC Loan	44,928	50,544	-	-	44,928	50,544
Revenue Bonds	-	-	8,531,674	9,376,674	8,531,674	9,376,674
Total Long-Term Debt	<u>\$ 8,495,806</u>	<u>\$ 9,054,486</u>	<u>\$ 11,911,621</u>	<u>\$ 13,077,070</u>	<u>\$ 20,407,427</u>	<u>\$ 22,131,556</u>

Economic Factors and Next Year's Budgets and Rates

The City of Manistee continues to weather the ongoing sluggish national and state economic recovery through sound budgeting, strategic planning and increased operational efficiencies. Although state-shared revenue has decreased by nearly 50% from its peak, it appears to have now stabilized and is increasing slightly. Property values continue to decline (albeit less sharply than in other areas of the state) and are expected to flatten and probably increase over the next few years.

In spite of these challenges, Manistee continues to be able to provide a wide range of services. Reduced revenues and rising costs have been addressed primarily by reducing headcount and aggressively pursuing healthcare reforms. Although this has adversely impacted employees, it has allowed the City to maintain adequate financial reserves. In addition, the pension and retiree healthcare issues that plague many communities across the nation do not exist in Manistee. City pension funds are well-funded and our OPEB is sharply limited because of a hard cap placed on this benefit many years ago. However, challenges still exist, primarily in the expected loss of revenue from personal property tax reforms implemented by the State.

The City recently undertook a comprehensive utility rate study. As a result, a new rate structure was implemented for water and sewer effective July 1, 2015. This structure is expected to raise additional revenue to address system maintenance needs.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Manistee
Attn: Finance Director
70 Maple Street
Manistee, Michigan 49660 or;

via email at ebradford@manisteemi.gov or;

by visiting our website www.manisteemi.gov

Basic Financial Statements

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Totals	
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 1,455,086	\$ 295,895	\$ 1,750,981	\$ 676,576
Cash and Equivalents - Restricted	-	420,000	420,000	58,065
Investments - Restricted	9,944,488	-	9,944,488	33,177
Investments - Unrestricted	-	488,874	488,874	-
Accounts Receivable	203,050	672,780	875,830	9,398
Notes Receivable	-	-	-	202,500
Due From Governmental Units	445,946	-	445,946	-
Due From Others	196,972	3,624	200,596	-
Internal Loans	491,828	(491,828)	-	-
Other Assets	-	-	-	31,249
Prepaid Items and Inventory	78,133	32,365	110,498	-
Capital Assets (Not Depreciated)	4,715,697	183,723	4,899,420	360,272
Capital Assets (Net of Accumulated Depreciation)	17,151,791	22,165,338	39,317,129	3,241,391
TOTAL ASSETS	\$ 34,682,991	\$ 23,770,771	\$ 58,453,762	\$ 4,612,628
LIABILITIES:				
Accounts Payable	\$ 71,695	\$ 47,188	\$ 118,883	\$ 91,847
Accrued Liabilities	56,803	13,872	70,675	15,856
Due to Other Governmental Units	-	-	-	39,251
Due to Others	218	43	261	-
Accrued Interest	76,464	67,730	144,194	-
Security Deposits	115,145	36,200	151,345	58,065
Unearned Revenue	6,018	-	6,018	3,391
Installment Loans Payable - Due within one year	5,616	156,156	161,772	-
Installment Loans Payable - Due in more than one year	39,312	1,413,791	1,453,103	-
Bonds Payable - Due within one year	630,000	1,055,000	1,685,000	-
Bonds Payable - Due in more than one year	7,495,000	9,286,674	16,781,674	-
Note Payable - Due within one year	52,146	-	52,146	-
Note Payable - Due in more than one year	273,732	-	273,732	500,000
Capital Leases - Due within one year	26,096	-	26,096	16,500
Capital Leases - Due in more than one year	205,936	-	205,936	1,179,253
OPEB Liability - Due in more than one year	101,145	-	101,145	-
Compensated Absences - Due within one year	-	-	-	12,114
Compensated Absences - Due in more than one year	269,667	70,088	339,755	12,915
TOTAL LIABILITIES	9,424,993	12,146,742	21,571,735	1,929,192
NET POSITION:				
Net Investment in Capital Assets	13,473,620	10,437,440	23,911,060	1,905,910
Restricted	7,895,206	420,000	8,315,206	-
Unrestricted	3,889,172	766,589	4,655,761	777,526
TOTAL NET POSITION	\$ 25,257,998	\$ 11,624,029	\$ 36,882,027	\$ 2,683,436

Statement of Activities For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 39,741	\$ -	\$ -	\$ -	(39,741)	\$ -	(39,741)	\$ -
General Government	1,157,948	873,431	76,513	-	(208,004)	-	(208,004)	-
Public Safety	2,077,314	28,155	182,125	-	(1,867,034)	-	(1,867,034)	-
Public Works	1,962,905	815,531	551,445	-	(595,929)	-	(595,929)	-
Community and Economic Development	225,961	-	-	-	(225,961)	-	(225,961)	-
Recreation and Culture	559,506	-	-	267,030	(292,476)	-	(292,476)	-
Interest Expense	309,706	-	-	-	(309,706)	-	(309,706)	-
Other	802,719	-	-	-	(802,719)	-	(802,719)	-
Total Governmental Activities	7,135,800	1,717,117	810,083	267,030	(4,341,570)	-	(4,341,570)	-
Business-type Activities:								
Boat Ramp	44,262	37,372	-	-	-	(6,890)	(6,890)	-
Marina	346,360	197,031	64,750	-	-	(84,579)	(84,579)	-
Ramsdell Theatre	352,479	85,609	-	-	-	(266,870)	(266,870)	-
Water and Sewer	3,364,523	3,512,177	43,096	-	-	190,750	190,750	-
Total Business-type Activities	4,107,624	3,832,189	107,846	-	-	(167,589)	(167,589)	-
Total Primary Government	<u>\$ 11,243,424</u>	<u>\$ 5,549,306</u>	<u>\$ 917,929</u>	<u>\$ 267,030</u>	<u>(4,341,570)</u>	<u>(167,589)</u>	<u>(4,509,159)</u>	<u>-</u>
Component Units:								
Public Works:								
Manistee Housing Commission	\$ 1,392,844	\$ 625,468	\$ 451,899	\$ 75,970				(239,507)
Recreation and Culture:								
Friends of the Ramsdell	1,192	-	3,748	-				2,556
Economic Development:								
Downtown Development Authority	552,373	42,839	-	-				(509,534)
Total Component Units	<u>\$ 1,946,409</u>	<u>\$ 668,307</u>	<u>\$ 455,647</u>	<u>\$ 75,970</u>				<u>(746,485)</u>
Total								
General Revenues and Transfers:								
Property Taxes					3,423,754	-	3,423,754	305,180
State Revenue Sharing					631,722	-	631,722	-
Investment Earnings/(Expense)					1,566,792	521	1,567,313	(74,465)
Other Revenue					152,300	-	-	168,944
Transfers					(203,318)	203,318	-	-
Total General Revenues and Transfers					<u>5,571,250</u>	<u>203,839</u>	<u>5,622,789</u>	<u>399,659</u>
Changes in Net Position					<u>1,229,680</u>	<u>36,250</u>	<u>1,265,930</u>	<u>(346,826)</u>
Net Position - Beginning					<u>24,299,591</u>	<u>11,587,779</u>	<u>35,887,370</u>	<u>3,028,480</u>
Prior Period Adjustment					<u>(271,273)</u>	<u>-</u>	<u>(271,273)</u>	<u>1,782</u>
Restated Net Position - Beginning					<u>24,028,318</u>	<u>11,587,779</u>	<u>35,616,097</u>	<u>3,030,262</u>
Net Position - Ending					<u>\$ 25,257,998</u>	<u>\$ 11,624,029</u>	<u>\$ 36,882,027</u>	<u>\$ 2,683,436</u>

See accompanying notes to financial statements.

City of Manistee, Michigan

Balance Sheet Governmental Funds June 30, 2014

	General	Major Street	Local Street	Oil and Gas	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 389,886	\$ 156,105	\$ 31,287	\$ 113,721	\$ 338,192	\$ 1,029,191
Investments - Restricted	57,175	-	-	9,887,313	-	9,944,488
Accounts Receivable	133,034	-	-	27,874	42,142	203,050
Due from Other Funds	358,676	-	-	380,877	7,500	747,053
Due from Governmental Units	107,473	105,791	22,353	-	210,329	445,946
Due from Others	185,075	-	-	-	11,897	196,972
Prepaid Items	68,905	-	-	-	183	69,088
TOTAL ASSETS	<u>\$ 1,300,224</u>	<u>\$ 261,896</u>	<u>\$ 53,640</u>	<u>\$ 10,409,785</u>	<u>\$ 610,243</u>	<u>\$ 12,635,788</u>
LIABILITIES:						
Accounts Payable	\$ 31,887	\$ 500	\$ -	\$ -	\$ 39,308	\$ 71,695
Unearned Revenue	-	-	-	-	6,018	6,018
Security Deposits	115,145	-	-	-	-	115,145
Accrued Payroll and Related Liabilities	56,803	-	-	-	-	56,803
Due to Others	218	-	-	-	-	218
Due to Other Funds	9,133	-	-	-	246,092	255,225
TOTAL LIABILITIES	<u>213,186</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>291,418</u>	<u>505,104</u>
FUND BALANCES:						
Nonspendable	68,905	-	-	7,388,977	183	7,458,065
Restricted	-	261,396	53,640	-	191,193	506,229
Committed	339,755	-	-	-	71,503	411,258
Assigned	-	-	-	3,020,808	55,946	3,076,754
Unassigned	678,378	-	-	-	-	678,378
TOTAL FUND BALANCES	<u>1,087,038</u>	<u>261,396</u>	<u>53,640</u>	<u>10,409,785</u>	<u>318,825</u>	<u>12,130,684</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,300,224</u>	<u>\$ 261,896</u>	<u>\$ 53,640</u>	<u>\$ 10,409,785</u>	<u>\$ 610,243</u>	
Reconciliation to amounts reported for governmental activities in the statement of net position:						
Capital assets used by governmental activities						20,120,081
Compensated absences liability						(269,667)
OPEB Liability						(101,145)
Long-term notes and bonds payable for governmental activities						(8,178,020)
Accrued interest expense						(68,594)
Internal service funds included in governmental activities						1,624,659
Net position of governmental activities						<u>\$ 25,257,998</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2014**

	General	Major Street	Local Street	Oil and Gas	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 3,214,630	\$ -	\$ -	\$ -	\$ 209,124	\$ 3,423,754
Licenses and Permits	111,146	-	-	-	-	111,146
Federal Sources	-	-	-	-	116,275	116,275
State Revenues	652,717	395,205	156,240	-	267,128	1,471,290
Local Revenues	-	-	-	-	112,130	112,130
Charges for Services	1,072,084	186,932	-	-	227,451	1,486,467
Interest and Rents	23,496	116	58	1,542,540	582	1,566,792
Other Revenue	214,309	57,485	-	-	9,150	280,944
TOTAL REVENUES	5,288,382	639,738	156,298	1,542,540	941,840	8,568,798
EXPENDITURES:						
Legislative	39,741	-	-	-	-	39,741
General Government	950,574	-	-	50,845	41,249	1,042,668
Public Safety	1,881,206	-	-	-	166,322	2,047,528
Public Works	959,810	370,955	155,117	-	440,227	1,926,109
Community and Economic Development	226,878	-	-	-	-	226,878
Recreation and Cultural	399,787	-	-	-	5,616	405,403
Other Expenditures	419,142	-	-	-	-	419,142
Capital Outlay	-	-	-	-	352,320	352,320
Debt Service	764,245	140,628	-	-	-	904,873
TOTAL EXPENDITURES	5,641,383	511,583	155,117	50,845	1,005,734	7,364,662
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(353,001)	128,155	1,181	1,491,695	(63,894)	1,204,136
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	425,135	-	80,648	-	342,553	848,336
Operating Transfers Out	(107,000)	(80,648)	(80,648)	(467,308)	(316,050)	(1,051,654)
TOTAL OTHER FINANCING SOURCES (USES)	318,135	(80,648)	-	(467,308)	26,503	(203,318)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(34,866)	47,507	1,181	1,024,387	(37,391)	1,000,818
FUND BALANCES, JULY 1	1,121,904	213,889	52,459	9,385,398	356,216	11,129,866
FUND BALANCES, JUNE 30	\$ 1,087,038	\$ 261,396	\$ 53,640	\$ 10,409,785	\$ 318,825	\$ 12,130,684

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014**

Net changes in fund balances - total governmental funds \$ 1,000,818

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$854,833) exceeded capital outlay \$481,478 in the current period. (373,355)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments 592,994

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 57,973

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Compensated absences	(22,752)
OPEB liability	(28,171)
Accrued interest	<u>2,173</u>

Changes in net position of governmental activities \$ 1,229,680

**Statement of Net Position
Proprietary Funds
June 30, 2014**

	Business - type Activities Enterprise Funds				Governmental Activities
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 85,870	\$ 134,500	\$ 75,525	\$ 295,895	\$ 425,895
Cash and Equivalents - Restricted	-	420,000	-	420,000	-
Investments - Unrestricted	-	488,874	-	488,874	-
Accounts Receivable	3,294	605,330	64,156	672,780	-
Due from Other Funds	77	-	-	77	-
Due from Others	-	3,624	-	3,624	-
Prepaid Items	1,286	13,178	951	15,415	9,045
Inventory	-	-	16,950	16,950	-
Capital Assets (Not Depreciated)	8,233	128,516	46,974	183,723	-
Capital Assets (Net of Accumulated Depreciation)	1,978,076	18,701,886	1,485,376	22,165,338	1,747,407
TOTAL ASSETS	\$ 2,076,836	\$ 20,495,908	\$ 1,689,932	\$ 24,262,676	\$ 2,182,347
LIABILITIES:					
Accounts Payable	\$ 6,091	\$ 34,605	\$ 6,492	\$ 47,188	\$ -
Security Deposits	-	36,200	-	36,200	-
Accrued Payroll and Related Liabilities	1,500	9,798	2,574	13,872	-
Accrued Interest Payable	18,170	46,128	3,432	67,730	7,870
Due to Other Funds	-	7,528	484,377	491,905	-
Due to Others	7	36	-	43	-
Compensated Absences - Due in more than one year	5,060	65,028	-	70,088	-
Capital Lease - Due within one year	-	-	-	-	21,106
Capital Lease - Due in more than one year	-	-	-	-	202,834
Installment Loans Payable - Due within one year	134,066	-	22,090	156,156	52,146
Installment Loans Payable - Due in more than one year	1,118,076	-	295,715	1,413,791	273,732
Bonds Payable - Due within one year	-	1,055,000	-	1,055,000	-
Bonds Payable - Due in more than one year	-	9,286,674	-	9,286,674	-
TOTAL LIABILITIES	1,282,970	10,540,997	814,680	12,638,647	557,688
NET POSITION:					
Net Investment in Capital Assets	734,167	8,488,728	1,214,545	10,437,440	1,523,467
Restricted for Debt Service	-	420,000	-	420,000	-
Unrestricted	59,699	1,046,183	(339,293)	766,589	101,192
TOTAL NET POSITION	\$ 793,866	\$ 9,954,911	\$ 875,252	\$ 11,624,029	\$ 1,624,659

**Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2014**

	Business - type Activities				Governmental
	Enterprise Funds				Activities
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES:					
Charges for Services	\$ 32,065	\$ 3,323,418	\$ 215,434	\$ 3,570,917	\$ 315,000
Refunds and Reimbursements	-	83,420	-	83,420	
Other Revenue	53,544	105,339	18,969	177,852	5,500
Total Operating Revenues	85,609	3,512,177	234,403	3,832,189	320,500
OPERATING EXPENSES:					
Personal Services	69,549	757,137	27,776	854,462	-
Contracted Services	2,654	131,827	10,062	144,543	-
Insurance	3,549	22,923	734	27,206	33,457
Administration	-	236,900	24,300	261,200	-
Equipment Rental	-	105,000	-	105,000	-
Supplies	10,116	136,792	102,781	249,689	-
Utilities	31,393	214,063	23,347	268,803	-
Events	24,253	-	-	24,253	-
Repair and Maintenance	54,032	281,561	79,148	414,741	-
Depreciation	104,635	1,151,654	92,171	1,348,460	217,841
Miscellaneous	4,420	16,065	11,636	32,121	-
Total Operating Expenses	304,601	3,053,922	371,955	3,730,478	251,298
OPERATING INCOME (LOSS)	(218,992)	458,255	(137,552)	101,711	69,202
NON-OPERATING REVENUES (EXPENSES):					
Interest and Rents	28	473	20	521	195
State Grants	-	43,096	64,750	107,846	-
Interest Expense	(47,878)	(310,601)	(18,667)	(377,146)	(11,424)
Total Non-Operating Revenues (Expenses)	(47,850)	(267,032)	46,103	(268,779)	(11,229)
Income (Loss) Before Transfers	(266,842)	191,223	(91,449)	(167,068)	57,973
Operating Transfers In	310,830	467,308	40,000	818,138	-
Operating Transfers Out	-	(614,820)	-	(614,820)	-
CHANGES IN NET POSITION	43,988	43,711	(51,449)	36,250	57,973
NET POSITION, JULY 1	749,878	9,911,200	926,701	11,587,779	1,837,959
PRIOR PERIOD ADJUSTMENT	-	-	-	-	(271,273)
NET POSITION, JUNE 30	\$ 793,866	\$ 9,954,911	\$ 875,252	\$ 11,624,029	\$ 1,624,659

Statement of Cash Flows Proprietary Fund Types For the Year Ended June 30, 2014

	Business - type Activities Enterprise Funds				Governmental Activities
	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 81,614	\$ 3,458,064	\$ 194,325	\$ 3,734,003	\$ 320,500
Payments to Suppliers	(128,619)	(1,268,146)	(254,320)	(1,651,085)	(187,311)
Payments to Employees	(64,880)	(753,560)	(26,821)	(845,261)	-
Internal Activity - Payments/Receipts with Other Funds	(77)	(2,943)	91,357	88,337	-
Net Cash Provided (Used) by Operating Activities	(111,962)	1,433,415	4,541	1,325,994	133,189
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
State Grants	-	43,096	64,750	107,846	-
Operating Transfers In	310,830	467,308	40,000	818,138	-
Operating Transfers Out	-	(614,820)	-	(614,820)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	310,830	(104,416)	104,750	311,164	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	(20,505)	(95,500)	-	(116,005)	(480,633)
Prior Period Adjustment for Cash in Escrow	-	-	-	-	(271,273)
Installment Note Proceeds	-	-	-	-	377,904
Interest Payments	(49,776)	(319,979)	(18,923)	(388,678)	(6,289)
Principal Payments	(129,053)	(1,015,000)	(21,396)	(1,165,449)	(88,441)
Net Cash Provided (Used) by Capital and Related Financing Activities	(199,334)	(1,430,479)	(40,319)	(1,670,132)	(468,732)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase/(decrease) in investments	-	(488,874)	-	(488,874)	-
Interest Income	28	473	20	521	195
Net Cash Provided (Used) by Investing Activities	28	(488,401)	20	(488,353)	195
Net Increase (Decrease) in Cash and Equivalents	(438)	(589,881)	68,992	(521,327)	(335,348)
Balances - Beginning of the Year	86,308	1,144,381	6,533	1,237,222	761,243
Balances - End of the Year	\$ 85,870	\$ 554,500	\$ 75,525	\$ 715,895	\$ 425,895
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ (218,992)	\$ 458,255	\$ (137,552)	\$ 101,711	\$ 69,202
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	104,635	1,151,654	92,171	1,348,460	217,841
Change in Assets and Liabilities:					
(Increase) Decrease in Assets:					
Accounts Receivable	685	(59,913)	(40,078)	(99,306)	-
Prepaid Items and Inventory	(1,128)	(2,231)	897	(2,462)	(6,317)
Due from Other Funds	(77)	11,468	-	11,391	-
Increase (Decrease) in Liabilities:					
Accounts Payable	2,926	(120,784)	(3,209)	(121,067)	(147,537)
Accrued Liabilities	1,290	(918)	955	1,327	-
Due to Other Funds	-	(14,411)	91,357	76,946	-
Customer Deposits	(4,680)	5,800	-	1,120	-
Compensated Absences	3,379	4,495	-	7,874	-
Net Cash Provided (Used) by Operating Activities	\$ (111,962)	\$ 1,433,415	\$ 4,541	\$ 1,325,994	\$ 133,189

Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Delinquent Tax	Payroll Clearing	Current Tax Collection	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 1	\$ 48,572	\$ 220,060	\$ 268,633
Due from Others	-	261	-	261
 TOTAL ASSETS	 <u>\$ 1</u>	 <u>\$ 48,833</u>	 <u>\$ 220,060</u>	 <u>\$ 268,894</u>
LIABILITIES:				
Due to Other Agencies	\$ -	\$ 6,967	\$ 220,060	\$ 227,027
Accrued Liabilities	1	41,866	-	41,867
 TOTAL LIABILITIES	 <u>1</u>	 <u>48,833</u>	 <u>220,060</u>	 <u>268,894</u>
NET POSITION:				
Held in Trust for Fund Purposes	-	-	-	-
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 1</u>	 <u>\$ 48,833</u>	 <u>\$ 220,060</u>	 <u>\$ 268,894</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Manistee conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Manistee.

A. Reporting Entity

The City of Manistee (the “City”) is governed by a City Council elected by the community at large. The legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61, regarding the definition of the reporting entity.

Discretely Presented Component Units

Friend of the Ramsdell

In accordance with GASB Statement No. 61, the financial statements of the Friends of the Ramsdell are included as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Friends of the Ramsdell is included within these financial Statements.

The Friends of the Ramsdell financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and accordingly, a reporting model different from that of the City is used. The Friends of Ramsdell financial statements included within reflect both models.

Manistee City Housing Commission

The Mayor, with approval of the City Council, appoints the members of the governing board of the Commission. The Commission’s fiscal year end is December 31, 2013. A complete financial statement of the Housing Commission can be obtained from the Executive Director, City of Manistee Housing Commission, Century Terrace, Manistee, Michigan 49660.

Downtown Development Authority (“DDA”)

The Mayor, with approval of the City Council, appoints the members of the governing board of the DDA. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, PO Box 358, Manistee, Michigan 49660-0358.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Blended Component Units*****Brownfield Redevelopment Authority**

The Mayor, with approval of the City Council, appoints the members of the governing board of the Brownfield Redevelopment Authority. The Brownfield Redevelopment Authority is reported as a blended component unit as a part of the City of Manistee's financial statements.

B. Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The *Oil and Gas Fund* accounts for the use of money derived from oil and gas royalties which have been endowed in a permanent fund by action of the electors of the City of Manistee. The income from the endowment was previously pledged in prior bond financing arrangements as part of the revenue stream to the Water and Sewer Utility. This pledge is still in effect; however, the City has adjusted water and sewer rates to allow the water and sewer utility to be self-sufficient without this revenue stream and funds calculated pursuant to an endowment spending rule are being used for capital improvements, including streets.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

The *Ramsdell Theatre Fund* accounts for the activities of the Ramsdell Theatre.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Capital Project Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Enterprise Funds. These funds account for the operations of the Boat Ramp and Marina funds.

Internal Service Fund. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Agency Funds. These funds account for assets held for others in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is disbursed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance*****Cash and Equivalents***

The City's cash and equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Pooled investment income for all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reports as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 20th; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assess values are established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2013 levy were assessed and equalized at \$194,796,427 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

The government's general operating tax rate for fiscal year 2014 was 17.7612 mills, with an additional 1.1500 mills levied for the City Refuse Fund.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this agreement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

Inventories and Prepaids Items

Inventories are valued at cost on the first in, first out basis for proprietary fund types. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both governmental-wide and fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal, and Sick Leave)

Vacation and sick days for the City's salaried and some hourly employees are determined by the City's personnel policies, and the remaining City's hourly employees are determined by the union agreement between the City and the employees' union. The liability for these amounts will be included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- Vacation leave with pay granted annually shall be used within eighteen months after qualifying for the same. Vacation leave not used shall be forfeited.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Each employee shall be granted one day for each month of employment for sick leave, not to exceed twelve days per year. Employees may accumulate up to 180 days of sick leave.
- Each employee who has two or more years of service shall be granted three days per year for personal business not to be deducted from sick leave. Employees with less than two years of service shall be granted one day off per year for personal business not to be deducted from sick leave.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualify for reporting in this category.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are recorded as deferred inflows and outflows and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period expenses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Fund Balance Classification***

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Prepaid Items and Oil and Gas Principal plus royalties as being Nonspendable as these items are not expected to be converted to cash within the next year. The City has \$7,458,065 in Nonspendable fund balance.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has \$506,229 in restricted fund balance for Major and Local Streets, City Refuse, Brownfield Redevelopment Authority, and Grant Management funds.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed \$411,258 for compensated absences and capital project funds.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds in the amount of \$3,076,754.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than May 15th of each year, the Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the City Council is the department level, which is the level at which expenditures may not legally exceed appropriations. A City Council resolution may approve transfers of appropriations between departments.

NOTE 3 - CASH AND INVESTMENTS

At year end, the City's cash and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents -					
Unrestricted	\$ 1,455,086	\$ 295,895	\$ 1,750,981	\$ 268,633	\$ 676,576
Cash and Equivalents –					
Restricted	-	420,000	420,000	-	58,065
Investments – Unrestricted	-	488,874	488,874	-	-
Investments – Restricted	<u>9,944,488</u>	<u>-</u>	<u>9,944,488</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,399,574</u>	<u>\$ 1,204,769</u>	<u>\$ 12,604,343</u>	<u>\$ 268,633</u>	<u>\$ 734,641</u>

Cash and investments of the Water and Sewer Fund are restricted by bond debt requirements in the amount of \$420,000.

NOTE 3 - CASH AND INVESTMENTS (Continued)

The breakdown between cash and investments is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 2,168,080	\$ 268,633	\$ 734,341
Petty Cash and Cash on Hand	2,901	-	300
Investments	<u>10,433,362</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,604,343</u>	<u>\$ 268,633</u>	<u>\$ 734,641</u>

Investments

	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10	Ratings
Investments:						
US Treasury Bills	\$ 290,906	\$ -	\$ 146,578	\$ 144,328	\$ -	AAA
Equity Securities	6,388,919	-	-	-	6,388,919	N/A
Asset Backed Securities	314,701	-	-	-	314,701	AAA
Bond Funds	2,314,032	163,087	671,469	1,397,239	82,237	AA+
Money Market	820,472	820,472	-	-	-	N/A
Certificates of Deposits	<u>304,332</u>	<u>304,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Total Investments	<u>\$ 10,433,362</u>	<u>\$ 1,287,891</u>	<u>\$ 818,047</u>	<u>\$ 1,541,567</u>	<u>\$ 6,785,857</u>	

Interest rate risk. State law limits the allowable investments and maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure of fair value losses arising from decreasing interest rates.

Credit risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law or investment credit risk.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$2,279,718 of the City's bank balance of \$2,771,489 was exposed to credit risk because it was uninsured and uncollateralized.

Concentration of credit risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The city's investment policy also does not have specific limits in concentration of credit risk. None of the investments held by the City exceeds five percent of the City's total investments.

NOTE 3 - CASH AND INVESTMENTS (Continued)Statutory Authority:

Public Act 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments/ Transfers</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 4,715,697	\$ -	\$ -	\$ -	\$ 4,715,697
Construction in Progress	<u>444,107</u>	<u>-</u>	<u>444,107</u>	<u>-</u>	<u>-</u>
Subtotal	<u>5,159,804</u>	<u>-</u>	<u>444,107</u>	<u>-</u>	<u>4,715,697</u>
<i>Capital assets being depreciated:</i>					
Land Improvements	5,289,361	-	-	(12,769)	5,276,592
Infrastructure	10,314,536	345,812	-	-	10,660,348
Buildings and Improvements	6,035,999	467,615	-	-	6,503,614
Vehicles	2,369,306	480,633	(65,876)	(173,861)	2,610,202
Furniture and Equipment	<u>2,448,177</u>	<u>112,157</u>	<u>-</u>	<u>186,630</u>	<u>2,746,964</u>
Subtotal	<u>26,457,379</u>	<u>1,406,217</u>	<u>(65,876)</u>	<u>-</u>	<u>27,797,720</u>
<i>Less accumulated depreciation for:</i>					
Land Improvements	(1,835,866)	(119,972)	-	-	(1,955,838)
Infrastructure	(2,094,219)	(464,772)	-	-	(2,558,991)
Buildings and Improvements	(2,720,960)	(188,592)	-	-	(2,909,552)
Vehicles	(1,670,402)	(105,208)	65,876	-	(1,709,734)
Furniture and Equipment	<u>(1,317,684)</u>	<u>(194,130)</u>	<u>-</u>	<u>-</u>	<u>(1,511,814)</u>
Subtotal	<u>(9,639,131)</u>	<u>(1,072,674)</u>	<u>65,876</u>	<u>-</u>	<u>(10,645,929)</u>
Net Capital Assets Being Depreciated	<u>16,818,248</u>	<u>333,543</u>	<u>-</u>	<u>-</u>	<u>17,151,791</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 21,978,052</u>	<u>\$ 333,543</u>	<u>\$ (444,107)</u>	<u>\$ -</u>	<u>\$ 21,867,488</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities

General Government	\$ 230,800
Public Safety	42,425
Public Works	429,453
Recreation and Culture	152,155
Internal Service	<u>217,841</u>

**Total Depreciation Expense -
Governmental Activities**

\$ 1,072,674

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments/ Transfers</u>	<u>Ending Balances</u>
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 60,207	\$ -	\$ -	\$ -	\$ 60,207
Construction in Progress	<u>97,936</u>	<u>25,580</u>	<u>-</u>	<u>-</u>	<u>123,516</u>
Subtotal	<u>158,143</u>	<u>25,580</u>	<u>-</u>	<u>-</u>	<u>183,723</u>
<i>Capital assets being depreciated:</i>					
Land Improvements	417,502	7,458	-	-	424,960
Building and Improvements	3,903,373	20,505	(5,473)	(75,311)	3,843,094
Infrastructure	35,083,574	43,677	-	(13,921)	35,113,330
Equipment	<u>1,011,442</u>	<u>18,785</u>	<u>-</u>	<u>89,232</u>	<u>1,119,459</u>
Subtotal	<u>40,415,891</u>	<u>90,425</u>	<u>(5,473)</u>	<u>-</u>	<u>40,500,843</u>
<i>Less accumulated depreciation for:</i>					
Land Improvements	(79,476)	(21,842)	-	-	(101,318)
Building and Improvements	(587,146)	(138,411)	5,473	-	(720,084)
Infrastructure	(15,813,136)	(1,088,215)	-	-	(16,901,351)
Equipment	<u>(512,760)</u>	<u>(99,992)</u>	<u>-</u>	<u>-</u>	<u>(612,752)</u>
Subtotal	<u>(16,992,518)</u>	<u>(1,348,460)</u>	<u>5,473</u>	<u>-</u>	<u>(18,335,505)</u>
Net Capital Assets Being Depreciated	<u>23,423,373</u>	<u>(1,258,035)</u>	<u>-</u>	<u>-</u>	<u>22,165,338</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 23,581,516</u>	<u>\$ (1,232,455)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,349,061</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities

Water and Sewer	\$ 1,151,654
Boat Ramp	24,475
Marina	67,696
Ramsdell Theatre	<u>104,635</u>

**Total Depreciation Expense -
Business-type Activities**

\$ 1,348,460

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Manistee Housing Commission:				
<i>Capital assets not being depreciated:</i>				
Land	<u>\$ 360,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,272</u>
<i>Capital assets being depreciated:</i>				
Buildings	9,846,116	58,535	-	9,904,651
Furniture and Equipment	<u>702,623</u>	<u>38,450</u>	<u>-</u>	<u>741,073</u>
Subtotal	<u>10,548,739</u>	<u>96,985</u>	<u>-</u>	<u>10,645,724</u>
<i>Less accumulated depreciation</i>	<u>(7,070,462)</u>	<u>(333,874)</u>	<u>3</u>	<u>(7,404,333)</u>
Net Capital Assets Being Depreciated	<u>3,478,277</u>	<u>(236,889)</u>	<u>3</u>	<u>3,241,388</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 3,838,549</u>	<u>\$ (236,889)</u>	<u>\$ 3</u>	<u>\$ 3,601,663</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

DUE FROM OTHER FUNDS					
DUE TO OTHER FUNDS	General	Oil and Gas	Nonmajor Governmental	Ramsdell Theatre	Total
	General	\$ 9,056	\$ -	\$ 77	\$ 9,133
	Nonmajor				
	Governmental	246,092	-	-	246,092
	Water and Sewer	28	7,500	-	7,528
	Nonmajor Enterprise	103,500	-	-	484,377
	Total	\$ 358,676	\$ 380,877	\$ 77	\$ 747,130

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		TRANSFERS (OUT)						
TRANSFERS IN		General	Local Street	Nonmajor Governmental	Ramsdell Theatre	Water and Sewer	Nonmajor Enterprise	Total
	General	\$ -	\$ -	\$ -	\$ 107,000	\$ -	\$ -	\$ 107,000
	Major Street	-	80,648	-	-	-	-	80,648
	Local Street	80,648	-	-	-	-	-	80,648
	Oil and Gas	-	-	-	-	467,308	-	467,308
	Nonmajor Governmental	71,975	-	245	203,830	-	40,000	316,050
	Water and Sewer	<u>272,512</u>	<u>-</u>	<u>342,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,820</u>
	Total	\$ 425,135	\$ 80,648	\$ 342,553	\$ 310,830	\$ 467,308	\$ 40,000	\$ 1,666,474

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

Primary Government

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specified income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>							
Bonds:							
2003 General Obligation Bond	3.50%	2024	\$ 125,000	\$ -	\$ 125,000	\$ -	\$ -
2010 DDA Limited Tax General Obligation Bond	2.00 to 4.00%	2020	860,000	-	115,000	745,000	115,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	4.40 to 5.20%	2015	270,000	-	130,000	140,000	140,000
2010 Tax General Obligation	2.00 to 4.65%	2031	5,380,000	-	215,000	5,165,000	220,000
2013 General Obligation Refunding Bond	2.00 to 2.50%	2024	2,100,000	-	25,000	2,075,000	155,000
Installment Loan:							
Michigan Economic Development Corporation Loan	0.0%	2022	50,544	-	5,616	44,928	5,616
Notes Payable:							
Braun Ambulance	2.70%	2022	-	257,904	52,026	205,878	22,741
Plow Truck	1.33%	2018	-	120,000	-	120,000	29,405
Internal Service Funds:							
Note Payable – Bucket Truck	3.50%	2014	13,962	-	13,962	-	-
Subtotal			8,799,506	377,904	681,604	8,495,806	687,762
Governmental Compensated Absences			246,915	22,752	-	269,667	-
Total Governmental Activities – Long-Term Debt			<u>9,046,421</u>	<u>400,656</u>	<u>681,604</u>	<u>8,765,473</u>	<u>687,762</u>
<u>Business-type Activities</u>							
Bonds:							
1997 General Obligation Revenue Bonds	2.25%	2017	125,000	-	30,000	95,000	30,000
1998 General Obligation Bonds	2.25%	2019	925,000	-	145,000	780,000	150,000
1999 General Obligation Bonds	2.50%	2021	1,055,000	-	120,000	935,000	125,000
2005 Water & Sewer Refunding Bonds	3.25 to 4.25%	2028	4,575,000	-	470,000	4,105,000	490,000
2006 SRF Water & Sewer Bonds	1.63%	2027	2,012,270	-	130,000	1,882,270	135,000
2010 SRF Water & Sewer Bonds	2.50%	2031	606,075	-	25,000	581,075	30,000
2010 DWRf Water & Sewer Bonds	2.50%	2031	425,000	-	20,000	405,000	20,000
2011 DWRf Water & Sewer Bonds	2.50%	2031	412,555	-	20,000	392,555	20,000
2011 SRF Water & Sewer Bonds	2.50%	2031	1,220,774	-	55,000	1,165,774	55,000

NOTE 6 - LONG-TERM DEBT (Continued)

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities (Continued)</u>							
Installment Loans:							
Marina Debt	3.24%	2026	339,201	-	21,396	317,805	22,090
Ramsdell Theatre – Roof	3.99%	2017	227,943	-	61,576	166,367	64,105
Ramsdell Theatre -- HVAC	3.64%	2027	<u>1,153,252</u>	<u>-</u>	<u>67,477</u>	<u>1,085,775</u>	<u>69,961</u>
Subtotal			13,077,070	-	1,165,449	11,911,621	1,211,156
Business-type Compensated Absences			<u>60,553</u>	<u>9,535</u>	<u>-</u>	<u>70,088</u>	<u>-</u>
Total Business-type Activities – Long-Term Debt			<u>13,137,623</u>	<u>9,535</u>	<u>1,165,449</u>	<u>11,981,709</u>	<u>1,211,156</u>
Total Long-Term Debt – Primary Government			<u>\$22,184,044</u>	<u>\$ 410,191</u>	<u>\$ 1,847,053</u>	<u>\$20,742,122</u>	<u>\$ 1,898,918</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		Business-type Activities	
	Bonds/Installment	Notes Payable	Bonds/Installment	Notes Payable
	Principal	Interest	Principal	Interest
Fiscal:				
2015	687,762	283,478	1,211,156	341,830
2016	573,778	266,183	1,247,075	303,315
2017	589,803	250,890	1,254,283	264,199
2018	615,876	235,047	1,252,285	225,471
2019	610,951	217,275	1,295,945	185,855
2020-2024	2,847,636	805,526	3,451,925	504,942
2025-2029	1,750,000	389,277	1,842,877	156,342
2030-2031	<u>820,000</u>	<u>38,395</u>	<u>356,075</u>	<u>11,665</u>
TOTALS	<u>\$ 8,495,806</u>	<u>\$ 2,486,071</u>	<u>\$ 11,911,621</u>	<u>\$ 1,993,619</u>

Component Unit – Housing Commission

MSHDA Mortgages – In 2007, the Commission, through MSHDA, a government agency, borrowed \$326,000 maturing December 2047 and in 2008 borrowed \$174,000 maturing December 2048. These are three forgivable mortgages that are non-interest bearing and secured by property and buildings. If the properties mortgaged are continuously used in the Domestic Violence program, the mortgages are forgivable over the 40 year term; 25% for each 10 years that the houses stay in the program. The Commission is required by the loan agreement to deposit money each year in a reserve account to cover maintenance and repairs for the homes over the term of the loans. The amount deposited in the reserve account as of December 31, 2013 was \$56,322.

NOTE 6 - LONG-TERM DEBT (Continued)

Note obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Beginning Balance	Due Within One Year
Housing Commission					
Mortgage 1 MSHDA	\$ 166,000	\$ -	\$ -	\$ 166,000	\$ -
Mortgage 2 MSHDA	160,000	-	-	160,000	-
Mortgage 3 MSHDA	<u>174,000</u>	<u>-</u>	<u>-</u>	<u>174,000</u>	<u>-</u>
Total Notes Payable	500,000	-	-	500,000	-
Compensated Absences	<u>21,620</u>	<u>-</u>	<u>10,552</u>	<u>11,068</u>	<u>-</u>
Total Component Unit Long-Term Debt	<u>\$ 521,620</u>	<u>\$ -</u>	<u>\$ 10,552</u>	<u>\$ 511,068</u>	<u>\$ -</u>

Since the MSHDA mortgage payables are forgivable over 40 years there are no future debt service requirements as of December 31, 2013.

NOTE 7 - LEASES

Capital Leases – The City has entered into a two lease agreements with US Bancorp and one with Team Financial for the purchase of three Kyocera TASK Alpha copiers. The City entered into another lease agreement with PNC for a Vactor Truck. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended June 30</u>	
2015	\$ 32,221
2016	29,254
2017	28,364
2018	<u>163,001</u>
Total Minimum Lease Payments	252,840
Less: Amount Representing Interest	<u>(20,808)</u>
Present Value	<u>\$ 232,032</u>

Capital Lease – Housing Commission – In November 2010, the Commission entered into an equipment lease-purchase agreement to acquire equipment under an energy performance contract to update the heating and efficiency of several properties. The total amount of the contract is \$1,287,635, which began in January 2013 and was all committed as of December 31, 2013. Principal payments commenced March 2013. Interest from inception to March 2013 in the amount of \$19,981 was added to principal. The agreement ends in July 2030.

NOTE 7 - LEASES (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Beginning Balance</u>	<u>Due Within One Year</u>
EDC Capital Lease	\$ <u>1,208,152</u>	\$ <u>-</u>	\$ <u>12,399</u>	\$ <u>1,195,753</u>	\$ <u>16,500</u>

Payments under the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 12,399	\$ 76,958	\$ 89,357
2014	16,500	76,047	92,547
2015	20,988	74,862	95,850
2016	25,892	73,378	99,270
2017	31,244	71,568	102,812
2018-2030	<u>1,101,129</u>	<u>638,121</u>	<u>1,739,250</u>
Total	\$ <u>1,208,152</u>	\$ <u>1,010,934</u>	\$ <u>2,219,086</u>

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of losses related to property loss, torts theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan Description

The City of Manistee participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers some employees of the City of Manistee. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**Funding Policy**

The City is required to contribute at actuarially determined rates; the current rates are as follows:

<u>Division</u>	<u>Percentage of Payroll</u>	
	<u>2013</u> <u>Valuation</u>	<u>2012</u> <u>Valuation</u>
Non-Union	9.12%	7.79%
POAM	13.13%	10.82%
IAFF	21.94%	20.30%
USWA	0.00%	0.00%
USWA – New hires (after 7/1)	4.46%	4.54%
COAM	5.82%	3.96%

General, Supervisory, USWA, POAM, IAFF and COAM employees are required to contribute 4%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2014, the City's annual pension cost of \$176,458 for the plan exceeded the required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used included (a) an 8% investment rate of return; (b) projected salary increases of 4.50% per year; and (c) 0.00 to 8.40% per year merit and longevity increases. Both determined using techniques that smooth the effect of short-term volatility over a four-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at initial valuation was 30 years.

<u>Three-year Trend Information</u>			
<u>Year</u> <u>Ended</u> <u>Dec 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2012	\$ 193,182	100%	0
2013	132,091	100%	0
2014	176,458	100%	0

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Housing Commission

The Housing Commission participates in a defined benefit pension plan that provides retirement, and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Housing Commission participated in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Housing Commission's eligible employees are required to contribute 6% of annual covered payroll to participate in the plan. The contribution requirements of the Housing Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and amended by the Housing Commission's Board depending on the MERS contribution program adopted by the Housing Commission. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS**Plan Description**

In the fiscal year ending June 30, 2010, the City adopted the provision of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting for Postretirement Benefits Other Than Pension Plans on a prospective basis. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. In addition to the pension benefits described in Note 9, the City provides a post retirement health insurance premium contribution of up to 50% of the premium, or a maximum of \$250 per month, from normal retirement until age 65 or eligibility for Medicare.

Funding Policy

There are no required contributions by plan participants. The required contribution is based on pay-as-you-go financing requirements. The City paid \$18,000 in health insurance premiums for participants for the year ended June 30, 2014. The benefit is funded by assets of the City's General Fund and Water and Sewer Fund depending on what department the employee was employed.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the actual required contribution of the employer. The City is not pre-funding their obligation, choosing to meet the requirements on a pay-as-you-go basis.

Annual required contribution	\$ 40,333
Interest on net OPEB obligation	<u>5,838</u>
Annual OPEB cost (expense)	46,171
Contributions made	<u>(18,000)</u>
increase in net OPEB obligation	28,171
Net OPEB obligation – beginning of year	<u>72,974</u>
Net OPEB obligation – end of year	<u>\$ 101,145</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2013 and 2014 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 38,311	42%	\$ 49,878
2013	40,596	43%	72,974
2014	46,171	40%	101,145

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2014, actuarial valuation, the alternative valuation method was used. The actuarial assumptions include: (a) a rate of return on investments of 4.50%; (b) projected healthcare benefit increases of 0.0%. The City's unfunded actuarial accrued liability will be amortized over 30 years in level dollar amounts. There are no assets as the City is funding OPEB on a "pay-as-you-go" basis.

NOTE 11 - LOCAL COMMUNITY STABILIZATION AUTHORITY ACT

PA 86 of 2014, was enacted as an Act for municipalities to create a metropolitan authority; to prescribe the powers, duties, and jurisdictions of the metropolitan authority; to prescribe the powers and duties of certain state officials; to levy, collect, and distribute a tax; and to repeal acts and parts of acts.

The Act requires each municipality's comprehensive annual financial report for the municipality's fiscal year ending in 2014 to include a calculation of the municipality's percentage of general operating revenues used to fund essential services in the municipality's fiscal year ending in 2012. The calculation of this is as follows:

Fire	\$	736,526
Police		<u>950,072</u>
Total Essential Services	\$	1,686,598
Total General Operating Revenues	\$	5,455,307
Percentage		31%

NOTE 12 - PRIOR PERIOD ADJUSTMENT

The Net Position of governmental activities was decreased by \$271,273 for cash held in escrow in the Motor Pool Fund.

Required Supplementary Information

Employee Retirement and Benefit Systems
Schedule of Funding Progress
June 30, 2014

Pension:

Three year trend information as of December 31st follows:

	2011	2012	2013
Actuarial Value of Assets	\$ 14,810,043	\$ 14,861,958	\$ 15,196,344
Actuarial Accrued Liability	14,760,715	15,112,485	16,122,026
Unfunded AAL	(49,328)	250,527	926,682
Funded Ratio	100%	98%	94%
Covered Payroll	2,247,138	2,377,589	2,669,756
UAAL as a Percentage of Covered Payroll	0%	11%	35%

Health Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
<i>Primary Government</i>						
2014	\$ -	\$ 466,025	\$ 466,025	0.0%	Not Available	-

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,224,499	\$ 3,224,499	\$ 3,214,630	\$ (9,869)
Licenses and Permits	106,500	106,500	111,146	4,646
State Sources	641,614	641,614	652,717	11,103
Charges for Services	1,105,263	1,105,263	1,072,084	(33,179)
Interest and Rents	29,030	29,030	23,496	(5,534)
Other Revenue	170,763	170,763	214,309	43,546
TOTAL REVENUES	5,277,669	5,277,669	5,288,382	10,713
EXPENDITURES:				
Legislative:				
City Council	46,970	46,970	39,741	7,229
General Government:				
Manager	211,175	211,175	210,948	227
Clerk	180,595	180,595	173,314	7,281
Attorney	80,000	91,000	86,291	4,709
Engineer	12,000	18,000	17,500	500
Finance/Treasurer	208,099	208,099	205,417	2,682
Building and Grounds	118,850	134,850	132,820	2,030
Assessor	117,284	117,284	117,757	(473)
Boards and Commissions	12,630	12,630	6,527	6,103
Total General Government	940,633	973,633	950,574	23,059
Public Safety:				
Police Department	963,568	963,568	959,368	4,200
Fire Department	856,853	911,853	921,838	(9,985)
Total Public Safety	1,820,421	1,875,421	1,881,206	(5,785)
Public Works:				
Public Works	1,004,522	1,004,522	959,810	44,712
Total Public Works	1,004,522	1,004,522	959,810	44,712
Community and Economic Development:				
Community Development	299,857	299,857	226,878	72,979
Total Community and Economic Development	299,857	299,857	226,878	72,979
Recreation and Culture:				
Parks and Recreation	371,003	387,003	399,787	(12,784)
Total Recreation and Culture	371,003	387,003	399,787	(12,784)
Debt Service	764,244	764,244	764,245	(1)
Other Expenditures:				
Street Lighting	128,000	128,000	102,917	25,083
Other	77,637	77,637	104,262	(26,625)
Insurance	78,000	78,000	79,945	(1,945)
Appropriations	131,018	132,018	132,018	-
Total Other Expenditures	414,655	415,655	419,142	(3,487)
TOTAL EXPENDITURES	5,662,305	5,767,305	5,641,383	125,922

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(384,636)	(489,636)	(353,001)	136,635
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	425,135	425,135	425,135	-
Operating Transfers Out	(107,000)	(107,000)	(107,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (66,501)</u>	<u>\$ (171,501)</u>	(34,866)	<u>\$ 136,635</u>
FUND BALANCE, JULY 1			<u>1,121,904</u>	
FUND BALANCE, JUNE 30			<u>\$ 1,087,038</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 365,000	\$ 365,000	\$ 395,205	\$ 30,205
Charges for Services	182,000	182,000	186,932	4,932
Interest	100	100	116	16
Other Revenue	-	-	57,485	57,485
TOTAL REVENUES	547,100	547,100	639,738	92,638
EXPENDITURES:				
Debt Service	142,163	142,163	140,628	1,535
Public Works	289,000	374,000	370,955	3,045
TOTAL EXPENDITURES	431,163	516,163	511,583	4,580
EXCESS (DEFICINECY) OF REVENUES OVER EXPENDITURES	115,937	30,937	128,155	97,218
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	5,000	5,000	-	(5,000)
Operating Transfers Out	(80,629)	(80,629)	(80,648)	(19)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 40,308</u>	<u>\$ (44,692)</u>	47,507	<u>\$ 92,199</u>
FUND BALANCE, JULY 1			<u>213,889</u>	
FUND BALANCE, JUNE 30			<u>\$ 261,396</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 130,000	\$ 130,000	\$ 156,240	\$ 26,240
Interest	50	50	58	8
TOTAL REVENUES	130,050	130,050	156,298	26,248
EXPENDITURES:				
Public Works	137,750	155,750	155,117	633
EXCESS (DEFICINECY) OF REVENUES OVER EXPENDITURES	(7,700)	(25,700)	1,181	26,881
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	85,629	85,629	80,648	(4,981)
Operating Transfers out	(80,629)	(80,629)	(80,648)	(19)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (2,700)</u>	<u>\$ (20,700)</u>	1,181	<u>\$ 26,887</u>
FUND BALANCE, JULY 1			52,459	
FUND BALANCE, JUNE 30			<u>\$ 53,640</u>	

Other Information

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds						
	City Refuse	EPA Grant - Petroleum	EPA Grant - Hazardous	Peg Commission	Brownfield Redevelopment Authority	Building Inspector	Street Improvement
ASSETS:							
Cash and Equivalents - Unrestricted	\$ 130,547	\$ -	\$ -	\$ 4,680	\$ 26,623	\$ 5,739	\$ 47,406
Receivables	25,573	-	-	1,411	9,140	-	6,018
Prepaid Items	-	-	-	-	-	183	-
Due from Other Governmental Units	-	-	-	-	-	-	-
Due from Others	11,688	-	-	-	-	-	209
Due from Other Funds	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 167,808	\$ -	\$ -	\$ 6,091	\$ 35,763	\$ 5,922	\$ 53,633
LIABILITIES:							
Accounts Payable	\$ 29,210	\$ -	\$ -	\$ 334	\$ -	\$ 168	\$ 2,997
Unearned Revenue	-	-	-	-	-	-	6,018
Due to Other Funds	150	-	-	-	-	-	-
TOTAL LIABILITIES	29,360	-	-	334	-	168	9,015
FUND BALANCES:							
Nonspendable	-	-	-	-	-	183	-
Restricted	138,448	-	-	-	35,763	-	-
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	5,757	-	5,571	44,618
TOTAL FUND BALANCES	138,448	-	-	5,757	35,763	5,754	44,618
TOTAL LIABILITIES AND FUND BALANCES	\$ 167,808	\$ -	\$ -	\$ 6,091	\$ 35,763	\$ 5,922	\$ 53,633

	Special Revenue Fund	Capital Project Funds		
	Grant Management Fund	Capital Improvement	Renaissance Park	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 53,594	\$ 68,504	\$ 1,099	\$ 338,192
Receivables	-	-	-	42,142
Prepaid Items	-	-	-	183
Due from Other Governmental Units	210,329	-	-	210,329
Due from Others	-	-	-	11,897
Due from Other Funds	-	7,500	-	7,500
TOTAL ASSETS	\$ 263,923	\$ 76,004	\$ 1,099	\$ 610,243
LIABILITIES:				
Accounts Payable	\$ 999	\$ 5,600	\$ -	\$ 39,308
Unearned Revenue	-	-	-	6,018
Due to Other Funds	245,942	-	-	246,092
TOTAL LIABILITIES	246,941	5,600	-	291,418
FUND BALANCES:				
Nonspendable	-	-	-	183
Restricted	16,982	-	-	191,193
Committed	-	70,404	1,099	71,503
Assigned	-	-	-	55,946
TOTAL FUND BALANCES	16,982	70,404	1,099	318,825
TOTAL LIABILITIES AND FUND BALANCES	\$ 263,923	\$ 76,004	\$ 1,099	\$ 610,243

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2014**

Special Revenue Funds							
	City Refuse	EPA Grant - Petroleum	EPA Grant - Hazardous	Peg Commission	Brownfield Redevelopment Authority	Building Inspector	Street Improvement
REVENUES:							
Taxes	\$ 206,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,735
Federal Sources	-	13,597	51,888	-	-	-	-
State Sources	-	-	-	-	44,128	-	-
Charges for Services	198,223	-	-	-	-	6,315	22,913
Local Sources	-	-	-	45,100	-	-	-
Other Revenues	10	-	-	-	9,140	-	-
Interest and Rents	131	-	-	5	-	4	354
TOTAL REVENUES	404,753	13,597	51,888	45,105	53,268	6,319	26,002
EXPENDITURES:							
General Government	-	-	-	41,249	-	-	-
Public Safety	-	13,352	51,888	-	25,965	17,301	-
Public Works	435,768	-	-	-	-	-	4,459
Recreation and Culture	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	435,768	13,352	51,888	41,249	25,965	17,301	4,459
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(31,015)	245	-	3,856	27,303	(10,982)	21,543
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	-	-	-	245	-	-
Operating Transfers Out	-	(245)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(245)	-	-	245	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(31,015)	-	-	3,856	27,548	(10,982)	21,543
FUND BALANCES, JULY 1	169,463	-	-	1,901	8,215	16,736	23,075
FUND BALANCES, JUNE 30	\$ 138,448	\$ -	\$ -	\$ 5,757	\$ 35,763	\$ 5,754	\$ 44,618

City of Manistee, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds For the Year Ended June 30, 2014

	Special Revenue Fund	Capital Project Funds		
	Grant Management Fund	Capital Improvement	Renaissance Park	Totals
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 209,124
Federal Sources	50,790	-	-	116,275
State Sources	223,000	-	-	267,128
Charges for Services	-	-	-	227,451
Local Sources	44,030	23,000	-	112,130
Other Revenues	-	-	-	9,150
Interest and Rents	-	86	2	582
TOTAL REVENUES	317,820	23,086	2	941,840
EXPENDITURES:				
General Government	-	-	-	41,249
Public Safety	57,816	-	-	166,322
Public Works	-	-	-	440,227
Recreation and Culture	-	-	5,616	5,616
Capital Outlay	289,765	62,555	-	352,320
TOTAL EXPENDITURES	347,581	62,555	5,616	1,005,734
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(29,761)	(39,469)	(5,614)	(63,894)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	342,308	-	342,553
Operating Transfers Out	-	(315,805)	-	(316,050)
TOTAL OTHER FINANCING SOURCES (USES)	-	26,503	-	26,503
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(29,761)	(12,966)	(5,614)	(37,391)
FUND BALANCES, JULY 1	46,743	83,370	6,713	356,216
FUND BALANCES, JUNE 30	\$ 16,982	\$ 70,404	\$ 1,099	\$ 318,825

Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2014

	Boat Ramp	Marina	Totals
ASSETS:			
Cash and Investments - Unrestricted	\$ 11,289	\$ 64,236	\$ 75,525
Receivables	-	64,156	64,156
Prepaid Items	-	951	951
Inventory	-	16,950	16,950
Capital Assets Not Depreciated	-	46,974	46,974
Capital Assets Net of Accumulated Depreciation	334,383	1,150,993	1,485,376
TOTAL ASSETS	\$ 345,672	\$ 1,344,260	\$ 1,689,932
LIABILITIES:			
Accounts Payable	\$ 112	\$ 6,380	\$ 6,492
Accrued Payroll and Related Liabilities	-	2,574	2,574
Accrued Interest Payable	-	3,432	3,432
Due to Other Funds	106,395	377,982	484,377
Installment Loans Payable - Due within one year	-	22,090	22,090
Installment Loans Payable - Due in more than one year	-	295,715	295,715
TOTAL LIABILITIES	106,507	708,173	814,680
NET POSITION:			
Net Investment in Capital Assets	334,383	880,162	1,214,545
Unrestricted	(95,218)	(244,075)	(339,293)
TOTAL NET POSITION	239,165	636,087	875,252
TOTAL LIABILITIES AND NET POSITION	\$ 345,672	\$ 1,344,260	\$ 1,689,932

**Combining Statement of Revenues, Expenses, and
Changes in Net Position - Nonmajor Enterprise Funds
For the Year Ended June 30, 2014**

	Boat Ramp	Marina	Totals
OPERATING REVENUES:			
Charges for Services	\$ 37,372	\$ 178,062	\$ 215,434
Other Revenue	-	18,969	18,969
	<u>37,372</u>	<u>197,031</u>	<u>234,403</u>
TOTAL OPERATING REVENUES			
OPERATING EXPENSES:			
Personal Services	-	27,776	27,776
Contracted Services	-	10,062	10,062
Administration	9,500	14,800	24,300
Insurance	-	734	734
Supplies	475	102,306	102,781
Utilities	4,401	18,946	23,347
Repair and Maintenance	2,510	76,638	79,148
Depreciation	24,475	67,696	92,171
Miscellaneous	508	11,128	11,636
	<u>41,869</u>	<u>330,086</u>	<u>371,955</u>
Total Operating Expenses			
OPERATING INCOME (LOSS)	<u>(4,497)</u>	<u>(133,055)</u>	<u>(137,552)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest on Investments	3	17	20
State Grants	-	64,750	64,750
Interest Expense	(2,393)	(16,274)	(18,667)
	<u>(2,390)</u>	<u>48,493</u>	<u>46,103</u>
Total Non-Operating Revenues (Expenses)			
Income (Loss) Before Transfers	(6,887)	(84,562)	(91,449)
Operating Transfers In	<u>-</u>	<u>40,000</u>	<u>40,000</u>
CHANGES IN NET POSITION	<u>(6,887)</u>	<u>(44,562)</u>	<u>(51,449)</u>
NET POSITION, JULY 1	<u>246,052</u>	<u>680,649</u>	<u>926,701</u>
NET POSITION, JUNE 30	<u><u>\$ 239,165</u></u>	<u><u>\$ 636,087</u></u>	<u><u>\$ 875,252</u></u>

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2014

	Boat Ramp	Marina	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 37,372	\$ 156,953	\$ 194,325
Payments to Suppliers	(17,506)	(236,814)	(254,320)
Payments to Employees	-	(26,821)	(26,821)
Internal Activity - Payments/Receipts with Other Funds	(12,143)	103,500	91,357
Net Cash Provided (Used) by Operating Activities	7,723	(3,182)	4,541
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
State Grants	-	64,750	64,750
Operating Transfers In	-	40,000	40,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	104,750	104,750
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Paid on Capital Debt	-	(21,396)	(21,396)
Interest Paid on Capital Debt	(2,393)	(16,530)	(18,923)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,393)	(37,926)	(40,319)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Income	3	17	20
Net Cash Provided (Used) by Investing Activities	3	17	20
Net Increase (Decrease) in Cash and Cash Equivalents	5,333	63,659	68,992
Balances - Beginning of the Year	5,956	577	6,533
Balances - End of the Year	\$ 11,289	\$ 64,236	\$ 75,525
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (4,497)	\$ (133,055)	\$ (137,552)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	24,475	67,696	92,171
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables	-	(40,078)	(40,078)
Inventory	-	786	786
Prepaid Items	-	111	111
Increase (Decrease) in Liabilities:			
Accounts Payable	(112)	(3,097)	(3,209)
Accrued Payroll and Related Liabilities	-	955	955
Due to Other Funds	(12,143)	103,500	91,357
Net Cash Provided (Used) by Operating Activities	\$ 7,723	\$ (3,182)	\$ 4,541

Combining Balance Sheet
Component Units
June 30, 2014

	Downtown Development Authority	Friends of the Ramdell	Manistee Housing Commission	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 153,481	\$ 4,073	\$ 519,022	\$ 676,576
Cash and Equivalents - Restricted	-	-	58,065	58,065
Accounts Receivable	28,303	-	4,874	33,177
Notes Receivable	202,500	-	-	202,500
Due from Other Governmental Units	-	-	9,398	9,398
Other Assets	-	-	31,249	31,249
Capital Assets Not Depreciated	-	-	360,272	360,272
Capital Assets Net of Accumulated Depreciation	-	-	3,241,391	3,241,391
 TOTAL ASSETS	 <u>\$ 384,284</u>	 <u>\$ 4,073</u>	 <u>\$ 4,224,271</u>	 <u>\$ 4,612,628</u>
LIABILITIES:				
Accounts Payable	\$ 30,548	\$ -	\$ 61,299	91,847
Accrued Liabilities	1,434	-	14,422	15,856
Due to Other Governmental Units	-	-	39,251	39,251
Security Deposits	-	-	58,065	58,065
Unearned Revenue	-	-	3,391	3,391
Capital Leases - Due within one year	-	-	16,500	16,500
Capital Leases - Due in more than one year	-	-	1,179,253	1,179,253
Note Payable - Due in more than one year	-	-	500,000	500,000
Compensated Absences - Due within one year	-	-	12,114	12,114
Compensated Absences - Due in more than one year	-	-	12,915	12,915
 TOTAL LIABILITIES	 <u>31,982</u>	 <u>-</u>	 <u>1,897,210</u>	 <u>1,929,192</u>
NET POSITION:				
Net Investment in Capital Assets	-	-	1,905,910	1,905,910
Unrestricted	352,302	4,073	421,151	777,526
 TOTAL NET POSITION	 <u>352,302</u>	 <u>4,073</u>	 <u>2,327,061</u>	 <u>2,683,436</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 384,284</u>	 <u>\$ 4,073</u>	 <u>\$ 4,224,271</u>	 <u>\$ 4,612,628</u>

**Combining Statement of Revenues, Expenditures
and Changes in Net Position
Component Units
For the Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Friends of the Ramsdell	Manistee Housing Commission	Total
Public Works:								
Manistee Housing Commission	\$ 1,392,844	\$ 625,468	\$ 451,899	\$ 75,970	\$ -	\$ -	\$ (239,507)	\$ (239,507)
Recreation and Culture:								
Friends of the Ramsdell	1,192	-	3,748	-	-	2,556	-	2,556
Economic Development:								
Downtown Development Authority	552,373	42,839	-	-	(509,534)	-	-	(509,534)
Total Component Units	<u>\$ 1,946,409</u>	<u>\$ 668,307</u>	<u>\$ 455,647</u>	<u>\$ 75,970</u>	<u>(509,534)</u>	<u>2,556</u>	<u>(239,507)</u>	<u>(746,485)</u>
General Revenues:								
Property Taxes					305,180	-	-	305,180
Interest Expense					-	-	(76,958)	(76,958)
Interest Income					945	1	1,547	2,493
Other Revenue					71,782	-	97,162	168,944
Total General Revenues					<u>377,907</u>	<u>1</u>	<u>21,751</u>	<u>399,659</u>
Changes in Net Position					<u>(131,627)</u>	<u>2,557</u>	<u>(217,756)</u>	<u>(346,826)</u>
Net Position - Beginning					483,929	1,516	2,543,035	3,028,480
Prior Period Adjustment					-	-	1,782	1,782
Restated Net Position - Beginning					<u>483,929</u>	<u>1,516</u>	<u>2,544,817</u>	<u>3,030,262</u>
Net Position - Ending					<u>\$ 352,302</u>	<u>\$ 4,073</u>	<u>\$ 2,327,061</u>	<u>\$ 2,683,436</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Manistee
Manistee, MI 49660

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Manistee, Michigan's basic financial statements and have issued our report thereon dated September 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Manistee Housing Commission, as described in or report on the City of Manistee, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Manistee, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manistee, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manistee, Michigan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the City Council
City of Manistee

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manistee, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 12, 2014



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the City Council
City of Manistee
Manistee, MI 49660

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan for the year ended June 30, 2014, and have issued our report thereon dated September 12, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information about our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 19, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Manistee, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Manistee, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 19, 2014.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manistee, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.
- Management's estimate of the Annual Required Contribution for OPEB Obligations and pension benefits were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Policies

During testing it was noted that the City did not have the following policies adopted: capitalization of assets, fraud and conflict of interest. We recommend that the City adopt these policies to help ensure sound accounting practices.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

This information is intended solely for the use of the Mayor, City Council and management of the City of Manistee, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 12, 2014